MUSTANG

RESOURCES LTD

ABN 34 090 074 785

Interim Financial Report for the Half-Year Ended 31 December 2016

INDEX

CORPORATE DIRECTORY

This half-year report covers the consolidated entity consisting of Mustang Resources Limited ("the Company" or "Mustang") and the entities it controlled during the half-year ended 31 December 2016 ("Consolidated Entity" or "Group"). The Group's presentation currency is Australian Dollars.

OFFICERS	Ian Daymond (Non-executive Director, Chairman) Christiaan Jordaan (Managing Director) Cobus van Wyk (Non-executive Director) Frank Petruzzelli (Non-executive Director) – resigned 21 November 2016 Robert Marusco (Company Secretary)
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AUDITORS	PricewaterhouseCoopers Brookfield Place, 125 St Georges Terrace Perth, Western Australia 6000
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ASX CODE	MUS

Directors' report

Your Directors submit this report for the half year ended 31 December 2016.

Directors

The names of the Directors of Mustang Resources Limited in office at any time during the half-year and until the date of this report are:

Ian Daymond – Non-executive Director, Chairman
Christiaan Jordaan – Managing Director
Cobus van Wyk – Non-executive Director
Frank Petruzzelli – Non-executive Director – resigned 21 November 2016

All Directors were in office from the beginning of the half-year until the date of this report except as stated above.

Review of operations

Operating results

The consolidated net loss for the Consolidated Entity entity for the half year was $1,159,809 (2015: net loss of $1,551,033).

Operational overview

The half year period to 31 December 2016 has been a pivotal period for Mustang Resources Limited("Mustang") which saw the Company put in place all of the foundations required to unlock the value of its flagship Montepuez Ruby Project in the Cabo Delgado Province of north-eastern Mozambique and become a significant new player in the rapidly growing global coloured gemstone market.

The Montepuez field is already firmly established as what is considered to be the single largest current ruby province in the world, having rapidly risen to prominence over the past four years thanks to the success of Mustang's neighbour at Montepuez, the UK-listed Gemfields (AIM: GEM), which has a market capitalisation of around A$453 million. Since November 2012 Gemfields has sold US$225 million of rubies recovered during its bulk sampling.

Mustang has built and commissioned a 75 tonnes per hour bulk sampling processing plant at its Montepuez Ruby Project, with a bulk sampling program which commenced in early 2017 and now well underway with processing and sampling rates ramping up to the targeted rate of 525 tonnes per day.

Mustang's decision during the December quarter to relocate the bulk sampling plant to a location immediately adjacent to the recently-discovered Alpha Deposit is expected to enhance the operation's ruby recovery potential, providing a ready supply of water for the processing plant and enabling the Company to implement a second shift per day in Q1 of 2017.

Subsequent to the end of the period, Mustang sent its first parcel of rubies and corundum, totaling 6,221cts, to the USA to be further assessed and processed prior to being sold to customers. This parcel will assist the market research team to evaluate the Company's rubies and determine which marketing channel will be the most effective and profitable.

In parallel with the bulk sampling program at Alpha, the Company has also commenced exploration activities to open up new ore sources on its tenements with auger drilling underway targeting additional ruby-bearing gravel zones. These activities are instrumental in delineating a JORC Compliant Resource and for completing a feasibility and economic assessment of the project's potential for full-scale commercial ruby mining.

While Mustang's core focus remains on the ramp-up in bulk sampling processing rates and cash flow from the Montepuez Ruby Project, the Company continued to progress its Balama Graphite Project, located in the same region, during the December quarter.

A diamond drilling program was completed focused on the Caula Project (Licence 6678L: 80% Interest), which is the most advanced prospect and offers the potential for delineation of a maiden graphite JORC Resource in the first half of 2017. Extensive high-grade graphite mineralisation has already been delineated at Balama, which lies within a world-class graphite province which is dominated by the world-class graphite deposit being developed by Syrah Resources (ASX: SYR).

Mustang considers there is an opportunity to crystallise value from the Balama Graphite Project, given the rapid growth being experienced in the graphite market as a result of surging demand from the lithium-ion battery sector globally, and particularly in China. Discussions have commenced with prospective strategic partners and will continue during the first half of 2017 as metallurgical testwork and process flowsheet work is progressed.

The Company also made significant progress on the corporate front, completing an oversubscribed $2.8 million capital raising during the period which has seen the introduction of several leading US institutional investors and was strongly supported by Australian sophisticated investors.

This together with the oversubscribed placement announced on 24 February 2017 will ensure that Mustang is well-funded to advance the Montepuez Ruby Project through to commercial production, whilst allowing it to increase the value of both its ruby and graphite projects through targeted exploration activities.

Montepuez Ruby Project, Mozambique

Mustang's flagship Montepuez Ruby Project is located within the Montepuez Complex in the Cabo Delgado Province of Northern Mozambique. The Montepuez Complex is a very unique geological occurrence, wherein widespread, high-grade ruby mineralisation is now known to occur. Mustang's licenses lie along the established NW-SE ruby mineralisation trend which also transects the Gemfields (AIM: GEM) licences. Extensive ruby mineralisation can also be found immediately to the Southeast of the Mustang licences, close to the village of Namahaka.

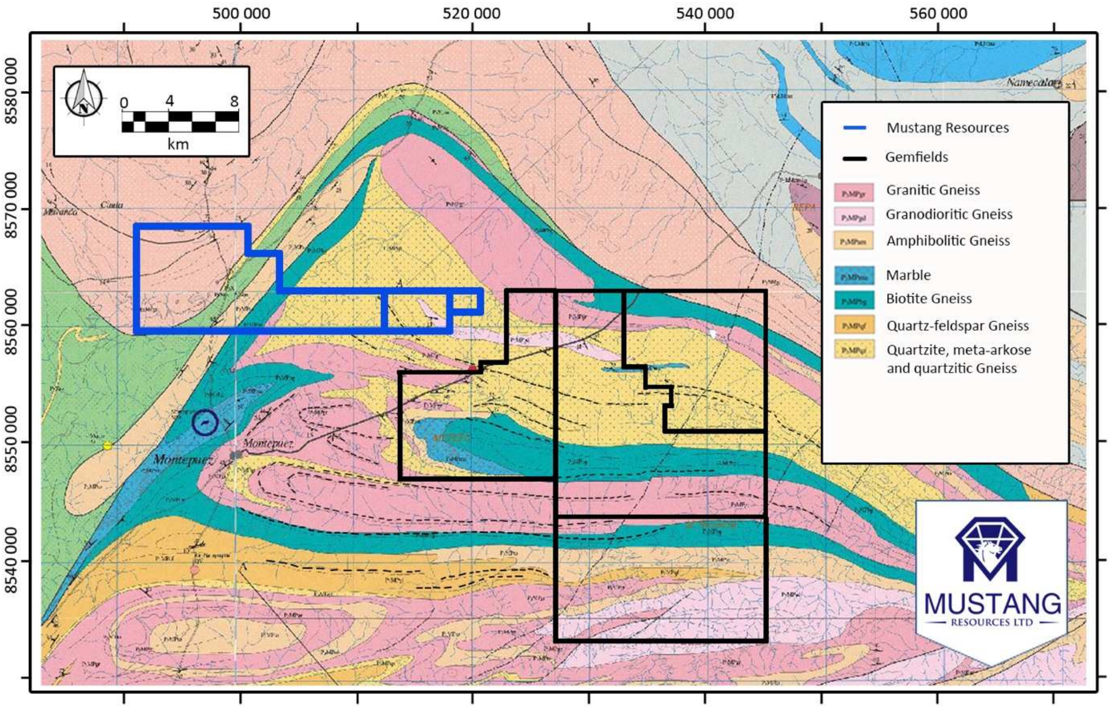

Figure 1. Geological Map of Montepuez Complex ("Wedge-shape") indicating location of Mustang licences

Relocation of Bulk Sampling Mining Plant

Following the commencement of bulk sampling at the Montepuez Ruby Project in the September 2016 quarter, the ramp-up to the targeted processing capacity of 350m^3 (525 tonnes) per day (Run-of-Mine "ROM" of approximately 900 tonnes per day) was hampered in the early part of the December quarter by temporary challenges related to the clay content of the ruby-bearing gravels and the lack of consistent process water.

The density and amount of clay present in the gravel ore was higher than originally anticipated and resulted in difficulties processing the gravels. This temporarily impeded the upscaling of the processing plant and caused increased water usage.

New jets and stronger water pumps were installed on the scrubber to assist in breaking up the clay and to increase the effectiveness of the plant towards the targeted rotary pan processing capacity.

In addition, Northern Mozambique experienced a long dry season from April to November 2016 which made consistent water supply during the commissioning and ramp-up a challenge for the Mustang operational team and resulted in the plant not being able to achieve its nameplate capacity.

In early November 2016, the Company commenced drilling boreholes for additional process water, which resulted in the discovery of significant water adjacent to the Alpha deposit.

The Company therefore made the decision to move the process plant to a new site established within 400m of the Alpha deposit, substantially reducing the ore haulage distance and mining cost (see Figure 2). The relocation of the plant has also allowed Mustang to introduce a second shift per day at the rotary pan processing plant in coming months.

Commissioning of the relocated processing plant was completed in early 2017, with the plant currently ramping up to the targeted rate of 525 tonnes per day.

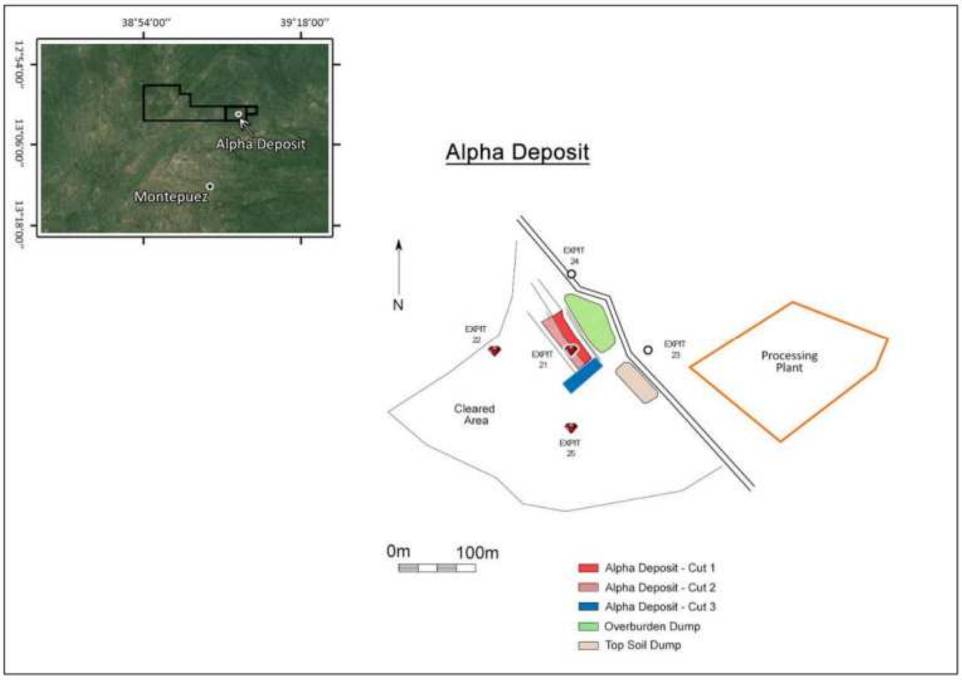

Figure 2. Map of Alpha ruby deposit and new plant location adjacent to the pit

Production to Date and Exploration Undertaken by Mustang's Prospecting Teams

From the inception of the bulk sampling program to 20 January 2017, 15,585m^3 of ruby-bearing gravel (including the immediate material above and below the gravel contacts) have been mined from the Alpha deposit and stockpiled, of which 7,290.50m^3 (approximately 11,300.28 tonnes) have been processed through the plant resulting in the recovery of 1,638.76cts of high quality ruby.

In addition to these recoveries, Mustang has used prospecting teams to assist in its exploration program and to accelerate the discovery and testing of new areas which can then be followed up with bulk sampling and auger drilling. This strategy has already proven to be successful in covering a lot of ground and rapidly testing new areas.

To date, Mustang's prospecting team's work has resulted in the receipt of 13,314.76 carats of ruby and corundum, of which 5,406 carats were included in the 6,221 carat parcel dispatched to the USA (see below).

Mustang considers that an inclusive relationship with local workers is the most sustainable way to engage with the local communities in its areas of operations, and the Company will be continuing to develop and invest actively in a local prospecting program to provide skill formation (mining, health & safety) as well as training. The Company has committed to pay its workers fair remuneration. This local community engagement and prospecting program is controlled and managed by Mustang's management team at site.

Mustang Ruby Parcel

A parcel of rubies and corundum totalling 6,221cts (which included 815cts of rubies mined by Mustang and 5,406cts received from its prospecting teams) was sent to the USA subsequent to the end of the December quarter to be further assessed and processed prior to being sold to customers.

This parcel will assist the market research team to evaluate the Company's rubies and determine which marketing channel will be the most effective and profitable.

Figure 3. Portion of the parcel of ruby & corundum (excl. special stones) dispatched to the USA. The parcel contains a good mix of different ruby qualities from lower quality material well suited to heat treatment to gem/facet quality material for the higher end markets.

Mustang Special Stones

A parcel of five special stones (Figure 4 below) weighing a total of 76.65cts, including two rare 24ct high quality rubies, will be cut by specialist gemstone cutter Meg Berry. Ms Berry has more than 38 years' experience in the cutting of fine gemstones and is widely acclaimed for her expertise in cutting ruby and other coloured gemstones.

All five stones have been confirmed as suitable for cutting without heat treatment. Typical cutting yields for gem/facet quality ruby from Mozambique can range from 30% to 60% depending on several factors such as the number of inclusions in the stone & the colour saturation. However, one of the most important factors for achieving a high-yield, high-quality final product is the skill of the cutter which can materially influence the value of these high-end stones.

Figure 4. Photos of Mustang Special Stones delivered in the USA (incl. 2X Rare 24ct Rubies)

Current asking prices in the US for unenhanced (untreated) Mozambique rubies between 4.00 and 4.99cts is US$18,425/ct (Lower Fine) to US$42,000 (Upper Extra Fine). Due to their rarity, wholesale reference prices for unenhanced (cut) Mozambican rubies larger than 5ct are not yet available and are typically negotiated between buyer and seller and prices can increase exponentially as the rubies get larger.

Auger Drilling Program – Growth Potential

An auger drilling campaign commenced in January 2017 to map the ruby-bearing ore across the project area and delineate an initial JORC Resource. The drilling has commenced at the Alpha deposit and will extend outwards. The purpose of this drilling campaign will be to map the extension of the Alpha deposit and thereafter to map all the gravel beds within all three of the Mustang licence boundaries.

From initial geological investigations undertaken by Mustang and its independent geologists, the Company is confident that the Montepuez Ruby Project will host significant ruby-bearing gravels.

Balama Graphite Project, Mozambique

The Balama Graphite Project, consisting of 7 exploration licences totalling more than 70,000ha, is located along strike from, amongst others, Syrah Resources Ltd – the world's leading graphite development company. Laboratory results of samples taken from the Balama Graphite Project confirm wide (up to 74m) high-grade intervals of up to 22% Total Graphitic Carbon (TGC). Field assessment has also highlighted the potential for large flake sizes, with a 2015 sample analysis showing 57.9% Super Jumbo flakes larger than +1180µm on licence 4662L. High-grade intersections recorded to date suggest likely extensions of nearby world-class graphite deposits.

A program of 596m of diamond drilling was completed at the Balama Graphite Project during the reporting period, focused on the Caula area (6678L; 80% interest) which is located in a closed anticline hinge.

The drilling program identified graphite mineralisation along strike from world-class development projects.

The drilling is aimed at delineating a graphite JORC Resource at Balama, which is targeted for delivery during the second half of 2017.

Results from metallurgical test work and a process flowsheet are also expected in Q2 2017.

Previous drilling at the Balama Project intersected high-grade intersections in eight RC holes drilled over extensive SkyTEM anomalies, with intersections of up to 22% TGC.

Corporate

Capital Raising

During December 2016 the Company obtained commitments for $2.8 million through an oversubscribed share placement led by US institutional investors in conjunction with Australian sophisticated investors. The placement comprised the issue of 133.4 million new ordinary shares and 66.7 million options (with an exercise price of $0.035 and 3 year term), ranking pari passu with existing holders, at an issue price of 2.1 cents per share and half option ("Placement").

Funds raised pursuant to the Placement will principally be used to develop the Company's Montepuez Ruby Project in Mozambique further, providing the Company with the ability to accelerate production volumes and ruby recoveries, achieve first ruby sales and aggressively expand the deposit through an auger drilling campaign. Limited further work will also be completed on the Balama Graphite Project.

Jett Capital Advisors LLC in New York and Hartleys Limited in Australia acted as joint lead managers to the Placement.

The Placement was made to institutional, professional and sophisticated investors. The Placement was completed in two tranches with 48.56 million shares ($1.02 million) issued in the first tranche (Tranche 1). The remaining 84.84 million shares ($1.78 million) were issued in a second tranche along with all options following the receipt of shareholder approval at a Company EGM held on 20 January 2017.

Settlement of Tranche 1 was completed on 22 December 2016 and settlement of Tranche 2 was completed on 24 January 2017.

Subsequent events

On 20 January 2017 a parcel of rubies and corundum totaling 6,221 carats was dispatched to the US which included 5 special stones of 75 carats total weight, including two rare 24 carat rubies.

Also on 20 January 2017 shareholders approved at a the Company EGM the ratification of a prior placement of shares known as Tranche 1 the approval of a further placement of shares called Tranche 2, the issue of placement options and the issue of advisor options.

On 28 February 2017 the Company announced the agreement to acquire a 65% stake in an additional strategic ruby licence bordering its Montepuez Ruby Project for US$100,000 plus 30 million fully paid ordinary shares in the Company (to be escrowed for 12 months), subject to various conditions precedent including shareholder approval.

The Company also completed a strategic placement to institutional and sophisticated investors to raise up to $5.88 million of which $5.28 million was completed under the Company's placement capacity ASX listing Rule 7.1 and the remaining $600,000 subject to shareholder approval at an EGM expected to be held in April 2017.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under S307C and the Corporations Act 2001 is set out on page 26.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Christiaan Jordaan
Managing Director

14 March 2017
Sydney, Australia

Forward-looking statements

This document may include forward-looking statements. Forward-looking statements include, but are not necessarily limited to the Company's planned exploration program and other statements that are not historic facts. When used in this document, words such as "could", "plan", "estimate", "expect", "intend", "may", "potential", "should" and similar expressions are forward-looking statements. Although the Company considers that its expectations reflected in these statements are reasonable, such statements involve risks and uncertainties, and no assurance can be given that actual results will be consistent with these forward-looking statement.

Competent Persons' Statements

Information in this report that relates to the Montepuez Ruby Project's Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Paul Allan, a Competent Person who is a registered member of the South African Council for Natural Scientific Professions (SACNASP), which is a Recognised Professional Organisation (RPO) included in a list posted on the ASX website. Mr Allan is an independent consultant who was engaged by the company to undertake this work. Mr Allan has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Allan consents to the inclusion of the data in the form and context in which it appears.

Information in this report that relates to the Balama Graphite Poject's Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Johan Erasmus, a Competent Person who is a registered member of the South African Council for Natural Scientific Professions (SACNASP) which is a Recognised Professional Organisation (RPO) included in a list posted on the ASX website. Mr Erasmus is a consultant to Sumsare Consulting, Witbank, South Africa which was engaged to undertake this work. Mr Erasmus has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results. Mr Erasmus consents to the inclusion of the data in the form and context in which it appears.

Directors' declaration

In accordance with a resolution of the Directors of Mustang Resources Limited, we state that:

In the opinion of the Directors:

(a) the financial statements and notes of the Consolidated Entity on pages 13 to 26 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Christiaan Jordaan
Managing Director

14 March 2017
Sydney, Australia

Consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December 2016

		Consolidated	
	Note	31 Dec 2016 $	31 Dec 2015 $
Interest income		3,832	212
Gain on sale of assets		16,410	283
Fair value loss on financial asset held as fair value through profit or loss		(175,373)	(274,316)
Administration costs		(1,324,074)	(1,242,989)
Interest expense		(17)	(9,087)
Foreign exchange gain		319,413	49,431
Loss from continuing operations before income tax expense	3	**(1,159,809)**	**(1,476,466)**
Income tax expense		-	-
Loss from continuing operations		**(1,159,809)**	**(1,476,466)**
Loss from discontinued operations		**-**	**(74,567)**
Net loss for the period		**(1,159,809)**	**(1,551,033)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss:			
Foreign currency translation reserve		670,743	(769,268)
Total comprehensive loss for the period		**(489,066)**	**(2,320,301)**
Loss for the period attributable to:			
Non-controlling interest		(225)	(253,358)
Owners of the parent		(1,159,584)	(1,297,675)
Total comprehensive loss for the period is attributable to:			
Non-controlling interest		(225)	(253,358)
Owners of the parent		(488,841)	(2,066,943)

Consolidated statement of profit or loss and other comprehensive income (continued)

For the six months ended 31 December 2016

	Consolidated	
	31 Dec 2016 $	31 Dec 2015 $
Loss per share		
Continuing operations		
Basic loss per share (cents per share)	0.36	1.58
Diluted loss per share (cents per share)	0.36	1.58
Discontinued operations		
Basic loss per share (cents per share)	-	0.08
Diluted loss per share (cents per share)	-	0.08
Total		
Basic loss per share (cents per share)	0.36	1.66
Diluted loss per share (cents per share)	0.36	1.66

The above consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2016

	Notes	Consolidated 31 Dec 2016 $	Consolidated 30 June 2016 $
Current assets			
Cash & cash equivalents		602,702	2,173,329
Trade & other receivables		647,576	652,060
Financial assets held at fair value through profit or loss	4	397,671	611,041
Prepayments		640	33,497
Total current assets		**1,648,589**	**3,469,927**
Non-current assets			
Trade and other receivables		4,670	5,088
Plant and equipment	5	735,295	719,971
Exploration and evaluation assets	6	31,197,884	28,107,516
Total non-current assets		**31,937,849**	**28,832,575**
Total assets		**33,586,438**	**32,302,502**
Current liabilities			
Trade and other payables		904,066	1,222,226
Provisions		201,258	115,937
Total current liabilities		**1,105,324**	**1,338,163**
Total liabilities		**1,105,324**	**1,338,163**
Net assets		**32,481,114**	**30,964,339**
Equity			
Contributed equity	10	147,950,005	146,056,472
Reserves		12,204,737	11,421,686
Accumulated losses		(131,216,198)	(130,056,614)
Parent entity interests		**28,938,544**	**27,421,544**
Non-controlling interests		3,542,570	3,542,795
Total Equity		**32,481,114**	**30,964,339**

The above consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the half-year ended 31 December 2016

	Contributed Equity	Accumulated Losses	Option Premium Reserves	Performance Rights Reserves	Foreign Currency Translation Reserve	Convertible Notes Reserve	Owners of The Parent	Non Controlling Interest	Total Equity
	$	$	$	$	$	$	$	$	$
Balance at 1 July 2015	**128,821,203**	**(119,923,917)**	**4,476,897**	**7,508,955**	**(13,354)**	**1,369,193**	**22,238,977**	**1,859,077**	**24,098,054**
Loss for the period	-	(1,297,675)	-	-	-	-	(1,297,675)	(253,358)	(1,551,033)
Other comprehensive loss	-	-	-	-	(769,268)	-	(769,268)	-	(769,268)
Total comprehensive loss for the half-year	-	(1,297,675)	-	-	(769,268)	-	(2,066,943)	(253,358)	**(2,320,301)**
Transactions with owners in their capacity as owners									
Shares issued	1,700,708	-	-	-	-	-	1,700,708	**-**	**1,700,708**
Options granted	-	-	102,350	-	-	-	102,350	**-**	**102,350**
Transaction costs on shares issued	(129,979)	-	-	-	-	-	(129,979)	**-**	**(129,979)**
Balance at 31 December 2015	**130,391,932**	**(121,221,592)**	**4,579,247**	**7,508,955**	**(782,622)**	**1,369,193**	**21,845,113**	**1,605,719**	**23,450,832**

	Contributed Equity	Accumulated Losses	Option Premium Reserves	Performance Rights Reserves	Foreign Currency Translation Reserve	Convertible Notes Reserve	Owners of The Parent	Non Controlling Interest	Total Equity
Balance at 1 July 2016	**146,056,472**	**(130,056,614)**	**5,028,922**	**7,508,955**	**(1,116,191)**	**-**	**27,421,544**	**3,542,795**	**30,964,339**
Loss for the period	-	(1,159,584)	-	-	-	-	(1,159,584)	(225)	(1,159,809)
Other comprehensive income	-	-	-	-	670,743	-	670,743	-	670,743
Total comprehensive loss for the half-year	-	(1,159,584)	-	-	670,743	**-**	(488,841)	(225)	**(489,066)**
Transactions with owners in their capacity as owners									
Shares issued	2,019,760	-	-	-	-	-	2,019,760	**-**	**2,019,760**
Options granted	-	-	112,308	-	-	-	112,308	**-**	**112,308**
Transaction costs on shares issued	(126,227)	-	-	-	-	-	(126,227)	**-**	**(126,227)**
Balance at 31 December 2016	**147,950,005**	**(131,216,198)**	**5,141,230**	**7,508,955**	**(445,448)**	**-**	**28,938,544**	**3,542,570**	**32,481,114**

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half-year ended 31 December 2016

	Consolidated	
	31 Dec 2016 $	31 Dec 2015 $
Cash flows from operating activities		
Receipts from customers	-	-
Payment to suppliers and employees	(1,565,137)	(998,995)
Interest received	3,832	329
Interest paid	(17)	(4,131)
Net cash outflows from operating activities	**(1,561,322)**	**(1,002,797)**
Cash flows from investing activities		
Exploration and evaluation costs	(2,374,913)	(2,402,249)
Payments for plant & equipment	(212,394)	(868,098)
Loan to Mozambican projects	-	(8,818)
Proceeds from sale of assets	99,078	1,947
Net cash outflows from investing activities	**(2,488,229)**	**(3,277,218)**
Cash flows from financing activities		
Proceeds from the issue of shares	2,019,760	375,000
Proceeds from the granting of options	-	102,350
Proceeds from Lanstead	150,304	895,000
Repayment of loans	-	(124,392)
Share issue costs	(126,227)	(19,831)
Net cash inflows from financing activities	**2,043,837**	**1,228,127**
Net decrease in cash held	**(2,005,714)**	**(3,051,888)**
Cash and cash equivalents at 1 July	2,173,329	3,711,787
Effect of exchange rate changes on cash	435,087	(160,635)
Cash and cash equivalents at 31 December	**602,702**	**499,264**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Basis of preparation and accounting policies

Basis of preparation

This financial report for the half-year ended 31 December 2016 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2016 and considered together with any public announcements made by Mustang Resources Limited during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Significant accounting policies

The accounting policies applied by the Group in this consolidated half-year financial report for the six months to 31 December 2016 are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2016 and the corresponding interim reporting period.

Estimates

The preparation of the half-year financial statements require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Inventory at Save River Diamonds Project
No value has been ascribed to the diamonds recovered from the trial mining program at the Save River Diamond Project. The diamonds are held in a bank in Maputo, Mozambique but are unable to be sold until Mozambique becomes a participant in the Kimberley Process Certification Scheme ("KPCS") which is expected during 2017. The assets capitalised as exploration assets for the Save River Diamond project are also dependent on further successful exploration of the area and Mozambique's successful entrance into the KPCS, which is still an ongoing process being managed by the Mozambican Government

Financial asset at FVTPL – Lanstead Agreement
The financial asset held at fair value through profit or loss ("FVTPL") has been valued for accounting purposes based on the sum of the present values of expected cash receipts from Lanstead using a 5 day VWAP of the shares as at 31 December 2016.

In preparing these consolidated half-year financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were, other than in the notes are the same as those applied to the consolidated financial report as at and for the year ended 30 June 2016.

Notes to the financial statements

1. Basis of preparation and accounting policies (continued)

Going Concern

This half-year financial report has been prepared and presented on a basis assuming it continues as a going concern. The going concern basis of preparation contemplates the continuity of normal business activities, including the realisation of assets and settlement of liabilities in the normal course of business.

The Group incurred a net loss for the half-year of $1,159,809 (2015: 1,551,033). At 31 December 2016 the Group had cash at bank totaling $602,702 and working capital surplus of $543,265 (June 2016: $2,131,764).

The Group has significant capital commitments in the next half of the financial year and it is unlikely that revenue generated from the trial mining program at Montepuez will be sufficient to fund these commitments in the required timeframe as potential revenues will only be from sale of gemstones at auctions when sufficient volumes of saleable material is available through bulk sampling / trial mining. The directors believe that the Group will be able meet all committed expenditure.

During the period under review the Company obtained commitments for $2.8 million in an oversubscribed placement to institutional and sophisticated investors. These funds were used primarily to scale-up the Montepuez Ruby Project bulk sampling program.

Subsequent to 31 December 2016, the Group announced that it had completed a strategic placement to institutional and sophisticated investors to raise up to $5.88 million of which $5.28 million was completed under the Group's placement capacity (ASX listing Rule 7.1) and the remaining $600,000 is subject to shareholder approval at an EGM expected to be held in April 2017. It is the Group's intention to continue to raise additional capital to ensure the ongoing development of the Group's projects until such time as they are self-funding.

Notes to the financial statements

2. Operating segments

No information is disclosed for operating segments as when management accounts are reviewed by the board of directors only consolidated numbers together with revenue and capital expenditure by project are included.

3. Loss for the half-year

Loss for the half-year includes the following items:

Continuing Operations

	31 Dec 2016 $	31 Dec 2015 $
Fair value movement on financial assets held as fair value through profit or loss	(195,935)	(274,316)
Office, meeting & travel costs	(228,699)	(423,114)
Professional fees	(394,365)	(209,016)
Employee costs & consulting fees	(514,507)	(804,293)

Discontinued Operations

	31 Dec 2016 $	31 Dec 2015 $
Revenue from oil and gas sales	-	-
Costs of sales	-	-
Impairment of oil & gas properties	-	-
Overheads – insurance, accounting & legal fees	-	(74,567)
	-	(74,567)

4. Financial assets held at fair value through profit or loss

	31 Dec 2016 $	30 Jun 2016 $
Financial asset held at fair value through profit or loss		
Financial asset – current	397,671	611,041
	397,671	611,041

During the financial year ended 30 June 2016 the Company entered into a series of agreements with Lanstead Capital LP (Lanstead) to provide ongoing funding. The details of these agreements are set out below.

On 20 November 2015, the Company entered into agreements for a subscription for shares in the Company and Sharing Agreements that linked the amount that would be received for those shares to the Company's average share price for 5 days prior to the end of the month in each of the 18 months following the issuance, less a discount of approximately 4 cents per share. The shares would be issued in two tranches of 12,500,000 shares. In exchange for signing the agreements and in lieu of fees payable on the transaction the Company agreed to issue Lanstead 1,250,000 shares, 8,750,000 options with a strike price of 25 cents each and transfer

Notes to the financial statements

4. Financial assets held at fair value through profit or loss (continued)

5% from its 80% equity interest in Montepuez Minerals Pty Ltd that the Company was in the process of acquiring. The Subscription Agreement and linked Sharing Agreement is a financial instrument with an embedded derivative linked to the Company's share price. Management has determined that the entire contract will be accounted for at fair value, with movements recognised through the statement of profit or loss.

Tranche A of the Subscription Agreement was completed on 20 November 2015, with the Company receiving an initial lump sum payment of $375,000 in exchange for 3,125,000 shares in the Company. In accordance with the Tranche A Sharing Agreement the Company issued a further 9,375,000 shares into escrow, to be released to Lanstead evenly over the following 18 months. The initial fair value of Tranche A (including the initial lump sum payment) was calculated as $1,659,998.

Tranche B of the agreements completed on 2 March 2016 following shareholder approval of the issuance of capital. Under Tranche B of the Subscription Agreement the Company again received an initial lump sum of $375,000 in exchange for 3,125,000 shares in the Company and issued a further 9,375,000 shares into escrow to be released over the following 18 months. The initial fair value (including the initial lump sum payment) was calculated as $831,839.

Under the terms of the Sharing Agreement, if there were any issuances of capital at less than 20 cents within 90 days of the issuance then the amounts payable under the Sharing Agreement would be adjusted downwards. Such an issuance occurred after the Tranche B issuance, leading to the future value of both Tranches reducing to nil. After negotiation with Lanstead, the Agreements were subsequently revised on 12 August 2016 to reset the benchmark price back to the original contract amount. The shortfall of $65,680 arising up to 31 December 2016 will be deducted before any further amounts are receivable under this agreement. Based on the share price at 31 December 2016, no additional amounts would be receivable under the contract and the fair value of Tranche A and Tranche B has been determined to be nil under both the original contract terms and the renegotiated terms.

During the year ended 30 June 2016, the Company received variable payments of $67,362 under the Sharing Agreements for Tranche A and B in addition to the $750,000 initial lump sum payments. No payments were received under the Sharing Agreements in the half year ended 31 December 2016.

On 11 May 2016, the Company entered into a further Subscription Agreement and a Sharing Agreement Transaction, termed Tranche C. Under this agreement, the Company received an initial lump sum payment of $127,500 in exchange for 5,312,500 shares and issued a further 15,937,500 shares into escrow, to be released to Lanstead evenly over the following 18 months.

The terms of this agreement were similar to the original agreements, other than the discount applied to the share price being 0.8 cents per share. The initial fair value (including the initial lump sum payment) was calculated as $629,412. The fair value of Tranche C at 31 December 2016 has been calculated to be $397,671.

As part of the Lanstead facility, Mustang also entered into a sharing agreement arrangement with Lanstead. Each month shares and cash are released over an eighteen month period out of escrow to the benefit of the Company and Lanstead.

Notes to the financial statements

4. Financial assets held at fair value through profit or loss (continued)

The cash to be received by Mustang is determined based on a five day volume weighted average price (VWAP) which is compared to the contractually agreed reference price of $0.2667 and the payment adjusted. The financial asset is held as a financial asset held at fair value through profit or loss derivative. At 31 December 2016, the 5 day VWAP was $0.0201 and the Company has reduced the value of the asset by the difference to reference price with the movement recognised as a fair value movement in profit and loss.

5. Plant & equipment

	31 Dec 2016 $	30 Jun 2016 $
Office equipment		
Office Equipment at cost	13,058	15,908
Accumulated depreciation	(2,600)	(2,652)
	10,458	13,256
Plant & equipment		
Plant & equipment at cost	1,149,978	1,145,296
Accumulated depreciation	(425,141)	(438,581)
	724,837	706,715
Total plant & equipment	735,295	719,971

Reconciliation	31 Dec 2016 $	30 Jun 2016 $
Office equipment		
Balance at start of year	13,256	23,331
Disposals	(110)	-
Movement in carrying value as a result of foreign currency valuations	(1,203)	(8,559)
Depreciation	(1,485)	(1,516)
	10,458	13,256
Plant & equipment		
Balance at start of year	706,715	1,652,841
Additions	158,062	336,821
Sales	(82,668)	(590,356)
Movements in carrying value as a result of foreign currency valuations	72,287	(197,743)
Depreciation subsequently capitalised to exploration & evaluation expenditure	(119,050)	(392,023)
Depreciation	(10,509)	(102,825)
	724,837	706,715
Total plant & equipment	735,295	719,971

Notes to the financial statements

6. Exploration and evaluation assets

	31 Dec 2016 $	30 Jun 2016 $
Exploration and evaluation assets	31,197,884	21,307,109
Reconciliation:		
Carrying amount at beginning of period	28,107,516	-
Movement in carrying value as a result of a foreign currency variations	596,405	(293,152)
Additions – acquisition exploration and evaluation assets	-	6,138,555
Additions – capitalised exploration & evaluation costs	2,493,963	5,739,283
Impairment expense	-	(4,784,279)
Total exploration and evaluation assets	31,197,884	28,107,516

7. Commitments

	31 Dec 2016 $	30 Jun 2016 $
Between one and five years	2,015,885	2,015,885
	2,015,885	2,015,885

As part of the acquisition of Montepuez Minerals Pty Ltd, the Group assumed contingent acquisition payments for Licence 5030L to the local partner of US$750,000 6 months after bulk sampling startup and US$750,000 12 months after bulk sampling startup. Payment is contingent on the licence being transferred to Mozambican SPV (recently completed) and the time period only starts upon bulk sampling activities starting on the particular licence area (current bulk sampling focused on deposit on licence 4143L, bulk sampling has not started on 5030L).

As part of the acquisition of Balama Resources Pty Ltd, the Group assumed all obligations under the agreements with the existing licence holders. Under the agreement concerning the Group's 75% majority interest in graphite licence 5873L, a total acquisition price of US$4,000,000 was payable should the Group have elected to further develop the licence. The Group previously paid an exclusivity fee of US$200,000 to allow the Group to conduct an evaluation of the licence. In September 2016 the Group notified the licence holder that it elected not to proceed with the acquisition, subsequently the licence holder notified the Group of its interest to re-negotiate different terms for the continued development of licence 5873L. At the time of authorization of the 31 December 2016 half-year financial report the amended agreement was in the final phases of execution.

Notes to the financial statements

8. Contingent assets & liabilities

Other than those events disclosed in Note 8 there are no other contingent liabilities (2015: nil).

9. Contributed equity

Reconciliation of movement in share capital	31 Dec 2016		31 Dec 2015	
	$	No.	$	No.
On issue at 1 July – fully paid	146,056,472	298,749,913	128,821,203	90,679,097
Issued for cash	2,019,760	73,560,000	-	-
Issued for financial asset held for fair value through profit or loss	-	-	1,325,708	12,500,000
Issued in lieu of cash transaction cost	-	-	375,000	1,250,000
Less: Transaction costs	(126,227)	-	(129,979)	-
On issue at 31 December – fully paid	147,950,005	372,309,913	130,391,932	104,429,097

As at 31 December 2016 the Company had 37,200,418 fully paid ordinary shares under escrow agreements with the vendors of the Diamond & Graphite projects. 31,550,418 fully paid ordinary shares came out of escrow on 2 March 2017 and 5,650,000 will come out of escrow on 10 June 2017.

On 15 August 2016 the Company issued 25,000,000 at $0.04 per share to raise $1,000,000 before costs to provide additional capital to continue exploration work on the Montepuez Ruby Project and general working capital for the Company. On the same date the Company also issued 7,500,000 unquoted options with an expiry date of 4 August 2019 and an exercise price of $0.06 as required under the Lanstead funding agreements.

On 22 December 2016 the Company issued 48,560,000 shares to raise $1,019,760 before costs to provide additional capital to continue exploration work on the Montepuez Ruby Project and general working capital for the Company. This was known as Tranche 1 of a two-step capital raising process. Tranche 2 was subject to shareholder approval which was granted at the EGM completed on 20 January 2017.

Tranche 2 was completed subsequent to the reporting period whereby on 24 January 2017 the Company issued 84,840,008 shares and options to raise $1,781,640 before costs to provide additional capital to continue exploration work and bulk sampling on the Montepuez Ruby Project, provide funds to complete auger drilling work on the Balama Graphite Project and for general working capital for the Company. On the same date the Company also issued 66,700,000 quoted options with an expiry date of 25 January 2020 and an exercise price of $0.035 as part of the issue of the shares. Overall the combination of Tranche 1 and Tranche 2 is the issue of a share and half an option at $0.021 to raise a total of $2,801,400 before costs.

Further, on the same date the Company also issued 6,156,933 quoted options with an expiry date of 25 January 2020 and an exercise price of $0.0273 as advisor options.

Notes to the financial statements

10. Dividends

No dividend has been paid or is proposed in respect of the half-year ended 31 December 2016 (2015: Nil).

11. Subsequent Events

On 20 January 2017 a parcel of rubies and corundum totaling 6,221 carats was dispatched to the US which included 5 special stones of 75 carats total weight, including two rare 24 carat rubies.

Also on 20 January 2017 shareholders approved at a Company EGM the ratification of a prior placement of shares known as Tranche 1, the approval of a further placement of shares called Tranche 2, the issue of placement options and the issue of advisor options.

On 28 February 2017 the Company announced an agreement to acquire a 65% stake in an additional strategic ruby licence bordering its Montepuez Ruby Project for US$100,000 plus 30 million fully paid ordinary shares in the Company (to be escrowed for 12 months), subject to various conditions precedent including shareholder approval.

The Company also completed a strategic placement to institutional and sophisticated investors to raise up to $5.88 million of which $5.28 million was completed under the Company's placement capacity ASX listing Rule 7.1 and the remaining $600,000 subject to shareholder approval at an EGM expected to be held in April 2017.

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Auditor's Independence Declaration

As lead auditor for the review of Mustang Resources Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Mustang Resources Limited and the entities it controlled during the period.

Craig Heatley
Partner
PricewaterhouseCoopers

Perth
14 March 2017

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Independent auditor's review report to the members of Mustang Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mustang Resources Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Mustang Resources Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mustang Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

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Independent auditor's review report to the members of Mustang Resources Limited (continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mustang Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Craig Heatley
Partner

Perth
14 March 2017